

Delegation of the European Union to Montenegro	
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ADDENDUM No. 2

TO THE FINANCING AGREEMENT

for

**Country Action Programme for Montenegro for the year 2016 - 2016/037-896**

As originally concluded between the European Commission and Montenegro on 22/12/2017 and as modified on 28/08/2020 and 01/07/2021 through an Addendum and Exchange of Letters respectively, hereinafter referred to as "**The Financing Agreement**".

The European Commission, hereinafter referred to as "**the Commission**", acting on behalf of the European Union, hereinafter referred to as "**the Union**",

of the one part, and

Montenegro, hereinafter referred to as "**the IPA II beneficiary**", represented by the **Ministry of European Affairs**,

of the other part,

jointly hereinafter referred to as "**the Parties**",

Whereas,

- (1) The Commission adopted on 02/12/2016 a Commission Implementing Decision C(2016)8226 establishing the Country Action Programme for Montenegro for the year 2016. This Programme is implemented by means of a Financing Agreement concluded between the Montenegro and the Commission on 22/12/2017.
- (2) The Commission has deemed necessary to amend the Financing Agreement;
- (3) The present amendment aims to establish a contingency reserve with unspent funds after the contracting deadline with the possibility to use it for extending ongoing projects under this Commission Implementing Decision.
- (4) The Country Action Programme for Montenegro for the year 2016 has been modified in order to reflect the required changes and it is therefore necessary to bring the Financing Agreement in line with the amended Programme.

HAVE AGREED ON THE FOLLOWING:

**Article 1**

Annex I to the Financing Agreement is replaced by Annex I to the present Addendum.


**Article 2**

All other terms and conditions of the Financing Agreement remain unchanged.

**Article 3**

This Addendum shall enter into force on the date on which it is signed by the last party and shall form an integral part of the Financing Agreement;

Addendum No. 3 to the Financing Agreement is drawn up in duplicate in the English language, one being handed to the Commission and one to the IPA II beneficiary.

<p>FOR THE IPA II BENEFICIARY</p>  <p>Mr Aleksandar Mašković National IPA Coordinator Government of Montenegro Ministry of European Affairs</p>	<p>FOR THE COMMISSION</p>  <p>Ms Michela Matuella Acting Director D, Western Balkans Directorate- General for Neighbourhood and Enlargement Negotiations</p>
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Date: 31/10/2022

Date: 14/10/2022

## ANNEX I

### *Country Action Programme for Montenegro for the year 2016*

#### I IDENTIFICATION

<b>Beneficiary</b>	<i>Montenegro</i>
<b>CRIS/ABAC Commitment references</b>	IPA/2016/037896
<b>Total cost</b>	EUR 21 064 341,43
<b>EU Contribution</b>	EUR 18.362.951,43
<b>Budget line</b>	22.020102
<b>Management Mode/ Entrusted entities</b>	<p>Direct management by the European Commission for: Action 3 - Support to COVID-19 crisis response in Montenegro (Budget Support)</p> <p>Indirect management by the entrusted entities listed below:</p> <ul style="list-style-type: none"> <li>– <i>Directorate of Public Works</i> for Action 1, and <i>Central Finance and Contracting Unit (CFCU, Directorate for the Financing and contracting of EU Assistance Funds, Ministry of Finance,)</i> for Action 2, together with the lead institutions responsible for the execution of the Actions:</li> <li>– <i>Ministry of Sustainable Development and Tourism</i> for Action 1, and <i>Ministry of Economy</i> for Action 2</li> </ul>
<b>Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary</b>	At the latest by 31 December 2017
<b>Final date for concluding <u>procurement and grant contracts</u></b>	<p>Three years following the date of conclusion of the Financing Agreements,</p> <p>with the exception of the cases listed under Article 189(2) Financial Regulation</p>
<b>Final date for operational implementation</b>	<p>For Action 3 (Support to COVID-19 crisis response in Montenegro (Budget Support)) : 6 years following the conclusion of the Financing Agreement</p> <p>For all other actions: 7 years following the date of conclusion of the Financing Agreements.</p>
<b>Final date for implementing the Financing Agreement</b> (date by which this programme should be de-committed and closed)	13 years following the conclusion of the Financing Agreements.

<b>Programming Unit</b>	DG NEAR Unit D.2 Montenegro and Serbia
<b>Implementing EU Delegation</b>	Delegation of the European Union to Montenegro



## 2 DESCRIPTION OF THE ACTION PROGRAMME

### 2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

- **Rationale for the selection of the specific sectors under this programme:**

The Annual Country Action Programme for Montenegro for the 2014 under IPA II contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro<sup>1</sup> through actions covering six of the eight priorities defined in the ISP; *Democracy and governance*, the *Rule of law and fundamental rights*, *Environment and Climate Action*, *Transport*, *Competitiveness and Innovation*, and the *Agriculture and rural development* sector. *Democracy and governance* and the *Rule of law and fundamental rights* sectors were also in the focus of the Annual Action Programme for Montenegro for the year 2015 through the sector budget support programme aimed at supporting the implementation of the Integrated Border Management Strategy. The *Action Programme for Montenegro for the year 2016* comes to complement the previous IPA II support programmes with a focus on economic development and growth by providing assistance to the **Environment and Climate Action, Competitiveness and Innovation and Education, employment and social policies** sectors.

Based on the sector approach principle, in 2015 Montenegro developed a *Regional Development Operational Programme 2016-2020 (RDOP)* to provide a multiannual framework for IPA programming in Environment and Competitiveness sectors (as well as Transport). The RDOP defines the sequencing of the activities; the actions planned for 2016-2017 will focus mainly on technical assistance, capacity building and project preparation while from 2018 onwards competitiveness schemes will be introduced and physical infrastructure developments can be launched.

The Country Action Programme for Montenegro for the year 2016 allocates **EUR 11 385 975** for capacity building and *acquis* related activities for the sector **Environment and Climate Action** and **EUR 6 228 900** for strengthening the **Competitiveness and Innovation** sector of Montenegro. The two actions, in line with the strategic objectives of the ISP, will bring added value to Montenegro, as well as to the European Union by supporting the integration process and by contributing to the economic development of Montenegro and the EU. Within the Education, employment and social policies sector, EUR 5 334 025 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID-19 pandemic. The allocation of 2016 funds will help Montenegro to ensure immediate response in a crisis induced by COVID-19 and overcome the challenges faced by the sectors and hampering the growth potential of the country. In the field of Environment, Montenegro has significantly changed its legal and policy framework since 2007 by adopting new laws and further developing the strategic framework for the sector. However, the implementation of legislation lags behind the efforts made to improve the legal and policy framework. In the Competitiveness and Innovation sector, several obstacles hamper a sustainable growth of the Montenegrin economy, such as a limited access of small and medium enterprises (SMEs) to financing.

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<sup>1</sup> C(2014)5771 of 18.08.2014 – Commission Implementing Decision adopting an Indicative Strategy Paper for Montenegro for the period 2014-2020"



- **Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sectors:**

In the area of **Environment and Climate Action** sector, previous assistance under IPA I focused mainly on the alignment with the environmental *acquis*, administrative capacity building and infrastructure development in the water and waste management sectors. The project "*Establishment of Natura 2000 network*" under IPA 2012-2013 aimed to carry out all necessary activities to start with laying foundations, including extensive field mapping and data gathering of future Natura 2000 network in Montenegro, in line with the requirements of the EU Birds and Habitats Directives. Under IPA II, the 2014 Annual Country Action Programme identified two intervention area for "*Strengthening the capacities for air quality management in Montenegro*" and "*Implementation of the Water Framework Directive*" with a EUR 2 835 000 EU contribution. The Actions planned under IPA 2016 complement these interventions.

As regards the **Competitiveness and Innovation** sector, previous assistance under IPA I focused on supporting the development of a sector strategy and financing measures to strengthen the business environment and to facilitate access to the Internal Market. Under IPA II, three actions supported the sector in 2014; "*Enhancement of business environment and competitiveness of the private sector*", "*Support to regulation of financial services*" and "*Alignment with and implementation of the EU internal market acquis*" with a total budget of EUR 5 350 000. Activities foreseen under IPA 2016 are a continuation of these actions. The preparation of a study on identification of the main areas for implementation of grant schemes for SMEs and clusters (e.g. quality standards, innovations) as well as implementation of pilot competitiveness grant schemes is under preparation with IPA 2014 support. Funds are committed to training and to technical assistance for staff of an Innovative and Entrepreneurial Centre and for the provision of detailed technical specifications for equipment to be installed in three laboratories.

**International organisations** (IOs) such as the UN system, together with **international financial institutions** (IFIs) like the World Bank Group (WB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and **bilateral donors** such as the Kreditanstalt für Wiederaufbau (KfW) are also playing an active role in providing assistance to finance the three sectors in Montenegro.

In the field of **Environment and Climate Action**, the **UN Development Programme (UNDP)** provides assistance to Montenegro for a swifter market transformation toward low emissions, a resource efficient economy, and resilient ecosystems, economies and communities. Examples of activities carried out with UNDP's support include the flood risk assessment of 12 municipalities or the development of water treatment system in Mojkovac. **KfW** is mainly active in the energy sector and in municipal infrastructure, including financing wastewater treatment facilities for the municipalities of Kotor and Tivat and the implementation of sewage disposal measures at the Kotor bay. As regards the **EIB**, a loan agreement supports the rehabilitation and construction of water and waste infrastructure in municipalities across the country.

As regards **Competitiveness and Innovation**, the UN Industrial Development Organisation **UNIDO** and **UNDP** are working with the Government on the implementation of economic reforms for enhancing the competitiveness of economy in Montenegro through industrial modernization and upgrading, enhancing the linkages between science, innovation and industry, clusters and export consortia development, youth and women employment and entrepreneurship activities. **EIB** has approved a new loan facility to the Investment and Development Fund of Montenegro (IDF) as financial intermediary in the amount of EUR 70 million for financing small and medium-sized projects carried out primarily by SMEs as well



as local authorities. At the end of 2015 IDF became a member of ENIF – Enterprise Innovation Fund within the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) Program. **EBRD** tries to address the issue of access to finance for businesses partly resulting from the elevated risk-averse lending by banks, by encouraging partner banks to increase their lending to SMEs, via direct financing to support SMEs' innovation and through policy dialogue to improve investment climate with a focus on agribusiness and tourism sector. The European Fund for South-East Europe (EFSE), as well as **KfW**, also play an active role in giving many micro-entrepreneurs access to financial services. Approximation of the legislation with EU *acquis* on free movement of services and competition protection (ALA) was also supported through a project co-financed by the European Union and BMZ, implemented by **GIZ** (Deutsche Gesellschaft für Internationale Zusammenarbeit), with the Ministry of Economy as the main beneficiary.

Experiences gained during the previous programming periods and implementation of previous projects shows some important **lessons learned** which need to be taken into account for future IPA assistance, in order to avoid possible overlaps and also to ensure that issues identified during the programming and/or implementation of previous projects will be addressed:

- *Planning and programming of IPA assistance* should be improved by improving communication and coordination among project beneficiaries and projects, increasing administrative and monitoring capacity, better linking EU assistance to national sector strategies and action plans.
- The government's strategic planning, project prioritization and especially project implementation *capacities need to be strengthened*, and policy development and coordination should be strengthened. The implementation of projects requires that institutions have adequate staff capacities available for working on activities during the lifetime of the project.
- The *sector approach concept* should be further internalised for future IPA support, avoiding isolated infrastructure projects, and focusing more on the accession process, building among others the required capacities for a successful implementation of EU *acquis*.
- During the programming, more focus should be given to *sustainability concerns* having in mind that high employee turnover, reliance on temporary staff and lack of expert skills in the administration hinder proper implementation of policies and projects.
- As *coordination among stakeholders* is recognised as a problem, its overcoming will require comprehensive and clear information flows and focus on common understanding of responsibilities, obligations and deadlines.
- A *clear link between reforms and capacity building initiative* in the sector and the *horizontal public administration reforms* (PAR Strategy 2016-20) is to be ensured. A partial reform of the civil service is part of the upcoming PAR Strategy 2016-20. Competent authorities need to be very proactive in cooperation with relevant stakeholders at central and local level and to improve inter-sectoral cooperation with other ministries in the programming and implementation of projects financed with the support of IPA.
- Finally, consultation with the relevant *external stakeholders* (CSOs, economic operators, etc.) is crucial for the implementation of legislation and programming of EU funds.

As regards the Education, employment and social policies sector, in order to mitigate the impact of the COVID-19 pandemic and crisis in Montenegro, a large-scale and all-encompassing budget support programme, worth EUR 40.5 EU contribution has been identified as the most effective and efficient intervention to help Montenegro reduce the negative effects of the crisis on the economy, preserve vulnerable social groups from the



disruptive effects of the crisis and guarantee their continued access to basic social services and increase access of vulnerable business to economic relief

- Within the Response to the COVID-19 crisis sector in order to mitigate the impact of the COVID-19 pandemic and crisis in Montenegro, a large-scale and all-encompassing budget support programme, worth EUR 40.5 EU contribution has been identified as the most effective and efficient intervention to help Montenegro reduce the negative effects of the crisis on the economy, preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services and increase access of vulnerable business to economic relief. In the EU response to the crisis, synergies are sought between this programme and the following operations, either already provided or planned, also in conjunction with other donors:
- Montenegro has requested an emergency financial support from the **European Macro Financial Assistance (MFA)**, up to EUR 60 million. MFA is an EU crisis response instrument linked to the emergency Rapid Financing Instrument of the International Monetary Fund (IMF). The objective of this assistance is to ease the country's external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the country address the current external and financial vulnerabilities. The MFA is available for 12 months period and disbursed in two instalments of up to EUR 30 million each. The policy conditions attached to this assistance will be based on the economic stabilisation and reform programme endorsed by the Montenegrin authorities and consistent with agreements reached by Montenegro with the IMF. The process of agreeing upon a Memorandum of Understanding and setting the MFA conditionality is ongoing.
- **SOPEES programme** (National IPA 2020, EUR 3.5 million): the programme aims at enhancing inclusion and employability of the long-term unemployed, with the focus on social welfare beneficiaries, women, youth, by supporting life in the community and through local partnerships initiatives for employment.
- **Improvement of Budgeting System, Multi-annual Budget Framework and Public Internal Financial Control System (National IPA 2014, EUR 1.3 million)**: the project aims to increase fiscal sustainability and sound management of public finances in line with EU requirements. The specific objectives of the contract are: a) the full implementation of a medium-term budget framework, b) the full development and implementation of a program budgeting based system and c) the improvement of Public Internal Financial Control system. The contract will include complementary activities to support the transition to accrual accounting, to improve the quality of budget documents and for the establishment of a system of prevention and recovery from potential threats to business continuity.
- **Development and strengthening of the capacities of State Audit Institution and Audit Authority (National IPA 2014, EUR 0.6 million)**: the project aims to further strengthening public sector external audit in Montenegro by providing support to Audit Authority (AA) and State Audit Institution (SAI). This includes strategic advice, improvements of operational manuals and procedures for different type of audit including usage of ad hoc IT tools, trainings, on the job assistance and strengthening relationships with the parliament.
- **Support to strengthening health systems and vulnerable groups (EUR 20 million IPA multicountry)**: 1. New interventions to support needs of vulnerable groups, especially



elderly and children; 2. Interventions to improve the resilience of health systems, by intensifying existing work through the European Centre for Disease Prevention and Control, as well as a new engagement with the WHO.

- **Economic Reactivation Package (EUR 455 million, IPA multicountry):** The interventions will support the economy recover and inject much needed liquidity to financial intermediaries and SMEs in the region through work with the IFIs (EUR 202 million reorientation of existing programmes, plus “new funding” including: EUR 95 million reprogrammed IPA funds, EUR 38 million of the IPA 2020 programme adapted to COVID-19, and EUR 120 million of the Western Balkans Guarantee reoriented to mitigate the socio-economic consequences of the pandemic).
- In addition, a package of **emergency support measures dedicated to Western Balkan Countries** has been discussed, to be implemented by EIB, in the amount of EUR 700 million. Funds will be granted, if requested, primarily to help the health sector, small and medium-sized enterprises and entrepreneurs to overcome the liquidity problems caused by the pandemic crisis. The assistance will also include the expertise of the EIB together with partner banks in the countries. The definition of needs and priorities is ongoing.

In the response of the international community, close coordination will be ensured between the EU and the following entities and projects:

- **The Rapid Financing Instrument (RFI) (IMF, EUR 30 million)** provides rapid and low-access financial assistance to its member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and post-conflict situations, and emergencies resulting from fragility. Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. Montenegro requested RFI assistance in April, and the procedures for its approval is ongoing.
- **Second Fiscal and Financial Sector Resilience Policy-Based Guarantee** (World Bank, EUR 80 million) was used for the execution of EUR 250 million syndicated loan in May from commercial banks. The 12-year loan has been withdrawn in mid-May, with a 3.63% interest rate. Its release was conditioned to the implementation of governmental reforms to safeguard fiscal sustainability and make the financial sector more resilient to potential shocks. The WB is considering to increase the guarantee of additional EUR 25 million with the aim to further ease the COVID-19-related pressure on the public finances.
- **Support to the reform of the system for determination of disabilities (UNDP, EUR 1 million EU support):** the purpose of this action is to rationalise the way the National Disability Determination System is conducted in Montenegro, as to facilitate access to the adequate services to the right users. The foreseen result will be the establishment of a functional national disability determination system. This area has been identified by the EU as a gap in the overall governmental programme dealing with the social card system.
- **Gender Programme (UNDP, EUR 0.735 million EU support):** the project focuses on three areas of gender equality: economic empowerment of women, fight against gender based violence and political participation of women. The activities include training of around 150 women in entrepreneurship in Podgorica and Nicksic, with the development of

business plans. In addition, 16 municipalities allocated budget lines for women entrepreneurship (EUR 120 000).

- **Protection of children from violence (UNICEF, EUR 0.3 million EU support):** the project aims at providing quality prevention and protection services so that children are effectively protected from all forms of violence and exploitation. Its specific objective is to strengthen the capacities of social and child protection, health, education, police, and justice professionals to prevent and protect children from violence and to enhance inter-sectoral collaboration so that children are provided with high quality, multi-sectoral support. Activities include the *improvement of the case management system* and *training for case managers* who work with children who were exposed to violence;
- The project **Early Childhood Development (ECD) in Montenegro (UNICEF, EUR 1 million EU support)** aims to support the improvement of health and development of children up to 6 years of age, including children with disabilities, in order to reach their full potential. Its specific aim is to ensure that young children, especially the most vulnerable, and their parents/caregivers benefit from quality, equitable, mutually reinforcing systems of health, education, social and child protection. In addition, the action will support the development of the first national ECD policy, with a costed Action Plan and a clear monitoring and evaluation framework. Start date: 1st August 2020.
- **Supporting Entrepreneurship through Advanced Advisory and Information Services for SMEs (EBRD, EUR 1.4 million (EU support):** the project aims to enhance the business environment and competitiveness of the private sector of Montenegro, by providing direct advisory assistance for SME and by supporting the development of the Single Access Point for business information.



*List of Actions foreseen under the selected Sectors/Priorities:*

*Environment and Climate Action*

INDIRECT MANAGEMENT WITH THE IPA II beneficiary	
Action 1- "Capacity Building and Acquis related Activities for Sector Environment & Climate Action"	EUR 6 145 888,43
TOTAL	EUR 6 145 888,43

*Competitiveness and Innovation*

INDIRECT MANAGEMENT WITH THE IPA II beneficiary	
Action 2-"Strengthening the Competitiveness and Innovation sector of Montenegro"	EUR 4 588 148
TOTAL	EUR 4 588 148

*Education, employment and social policies sector*

DIRECT MANAGEMENT by the European Commission	
Action 3 - Support to COVID-19 crisis response in Montenegro	EUR 5 334 025
TOTAL	EUR 5 334 025

**2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS**

SECTOR	<i>Environment and Climate Action</i>		EUR
			6 145 888,43
<b>Action 1</b>	Capacity Building and Acquis related Activities for Sector Environment & Climate Action	<i>Indirect management by beneficiary country</i>	EUR 6 145 888,43

*(1) Description of the Action, objective, expected results and key performance indicators*

*Description of the Action and objective:*

The overall objective of Action 1 - "*Capacity Building and Acquis related Activities for Sector Environment & Climate Action*" is to support Montenegro's alignment with the EU *acquis* under *Chapter 27* of the accession negotiations, as well as to increase the administrative capacity through institutional building. The specific objective of this Action is to support the transposition process and develop the institutional capacity for strategic planning, implementation and enforcement of environmental and climate change *acquis*, in line with the National Environmental Approximation Strategy - NEAS.

This Action will assist Montenegro by contributing to the development of technical capacities for the sound implementation of EU *acquis* for the sector Environment and Climate Action, providing support for:

- harmonising the Montenegrin legislation with the EU environmental *acquis*;
- strengthening the institutional framework and administrative capacities for planning and implementation of environmental policies.

It is also important to support public awareness-raising on issues relevant to environmental protection and climate change.

The Action will focus on the following subsectors: horizontal (cross-cutting) legislation/issues, ambient air quality (AAQ), water management, waste management, industrial pollution control, chemicals management, nature protection, noise assessment and management in environment and civil protection and climate change as a separate sector.

***Expected results and key performance indicators:***

The main expected results of this Action include:

- improved administrative capacity for the Environment and Climate Action Sector;
- alignment of the national legislation with the EU *acquis* for Environment and Climate Action Sector;
- alignment of Project Pipeline, National Strategies and Implementation Plans with the EU *acquis* for Environment and Climate Action;

Progress towards reaching the expected results will be measured according to a number of key indicators, including:

- Progress made towards meeting accession criteria, as assessed by the Montenegro (Progress) Report under Chapter 27 – Environment
- Level of effectiveness of NEAS Action Plans for Transposition and Administrative Capacity (composite indicator), made of:
  - % achievement Activities Plan for Transposition of Legislation, and
  - % achievement Activities Plan for Upgrading Administrative Capacities

***(2) Assumptions and conditions***

The implementation of the Action requires that the Government of Montenegro continues to support reforms in the Environment & Climate Action Sector according to National Environmental Approximation Strategy (NEAS).

For the purpose of aligning to and implementing the EU legislation on environmental protection and climate change, Montenegro has prepared the NEAS. The implementation of NEAS will be supported through this Action. Therefore, the adoption by the Government of the NEAS and the start of its implementation are **pre-conditions** necessary for implementing this Action.



The Action Plan for full transposition of the EU legislation in the Environment and Climate Action sectors, included in the NEAS, has to be completed in line with the timing foreseen, as the transposed legislation forms the basis for further implementation. Delay with the transposition would consequently delay the implementation of the different sub-sector strategies.

Montenegro will also undertake to ensure that the **conditions** underlying the Action are fully met throughout the implementation of the Action, as well as after its completion:

- Institutional adjustment measures included in the NEAS Action Plan are implemented and increased financial resources sector from the state budget are allocated to the Environment (for staffing, monitoring, inspections, etc.);
- The outputs delivered through past projects in this field are in place and utilised, including the adoption of the Waste Management Plan 2015-2020
- Costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured;
- Legal and institutional proposals and results of the projects are implemented in a consequent manner.

### *(3) Implementation arrangements for the action*

This Action will be implemented in indirect management by Montenegro.

#### *(3)(a) Entity entrusted with budget implementation tasks:*

This Action will be managed under indirect management by the **Public Works Administration** together with the **Ministry of Sustainable Development and Tourism**.

#### *(3)(b) Short description of the tasks entrusted to the entity:*

The entrusted entities shall be responsible for carrying out all the tasks relating to the implementation of the Action. In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

At the operational level, the Ministry of Sustainable Development and Tourism will have the overall coordination and reporting role over the implementation of the Action, while other relevant bodies and departments will be responsible to participate in the project activities for which they are responsible/collaborators.

The Public Works Administration acting as the Implementing Agency under IPA will bear the sole responsibility for the proper implementation of all contracts in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. The Project Implementation Unit (PIU) of the Ministry of Sustainable Development and Tourism will provide support to the Directorate of Public Works whereby ensuring the proper technical implementation of the contract activities. In this regard, the Public Works Administration and the PIU will closely cooperate throughout the contracts implementation process.

<b>SECTOR</b>	<b><i>Competitiveness and Innovation</i></b>		<b>EUR</b> <b>4 588 148</b>
<b>Action 2</b>	Strengthening the Competitiveness and Innovation sector of Montenegro	<b><i>Indirect management by beneficiary country</i></b>	<b>EUR</b> <b>4 588 148</b>

***(1) Description of the Action, objective, expected results and key performance indicators***

***Description of the Action and objective:***

The overall objective of Action 2 - "*Strengthening the Competitiveness and Innovation sector of Montenegro*" is to strengthen the economic competitiveness and innovation capacity of Montenegro. The specific objective of this action is to support the development of the private sector and of a knowledge-based economy. In addition, it supports alignment of national legislation and strategies to the EU *acquis* in the sector and the provision of advanced advisory service for private sector; as well as the internationalisation of the Montenegrin economy. The Action will also improve the research and innovation infrastructure available to SMEs in order to support their development in this regard. Finally, as regards administrative capacities, IPA support will be used for the provision of horizontal assistance for the capacity development of the relevant institutions involved in competitiveness and innovation management. The foreseen activities include:

- improving access to finance of private sector for competitiveness and innovation;
- supporting business development through advanced advisory services;
- promoting the internationalisation of the economy;
- improving of R&I related infrastructures that can be used in support for the SMEs development;
- provision of horizontal assistance for increasing the capacity of relevant institutions involved on Competitiveness and Innovation Management;
- alignment of national legislation and strategies with EU *acquis* for chapters relevant for Competitiveness and Innovation.

***Expected results and key performance indicators:***

The main expected results of this Action include:

- increased private sector's competitiveness, with a focus on SMEs
- increased innovation capacity of the private sector, with a focus on SMEs;
- increased administrative capacities and level of alignment to the EU *acquis* in the field of Competitiveness and Innovation.

Progress will be measured according to a number of key indicators, including:

- Doing Business – Distance to frontier (score);
- Number of new businesses registered.



## *(2) Assumptions and conditions*

The implementation of the Action requires the full commitment and support to the development of the process by the responsible institutions/stakeholders and the Government on the competitiveness and innovation strategy.

Results can be delivered on the assumption that services developed through the Action correspond to enterprises' needs, that institutions and stakeholders involved allocate a sufficient number of staff in the activities, are committed to ensure sustainability of facilities and services, and do coordinate adequately.

This Action comes to support Montenegro in the process of developing its economic competitiveness and implementing its Economic Reform Programme. Montenegro will also undertake to ensure that the conditions underlying the Action are fully met throughout its implementation, as well as after its completion:

- industrial policy adopted in order to develop further activities in the area of its implementation, monitoring and evaluation;
- effective cooperation among the Ministries and local authorities responsible for various aspects of Competitiveness and Innovation;
- implementation of the assistance under IPA 2014 initiated and the results used in the inception of the activities under this Action;
- adoption of policy documents related to this sector (Strategy, Action plan, Feasibility study, Strategic (business) Plan) which are based on reliable data, duly costed and consulted with the relevant internal and external stakeholders;
- successful continuation and realization of planned activities and commitment of all involved (Ministry and other stakeholders) to actively participate in the project;
- costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured.

## *(3) Implementation arrangements for the action:*

This Action will be implemented in indirect management by Montenegro.

### *(3)(a) Entity entrusted with budget implementation tasks:*

This Action will be managed under indirect management by the **Central Financial and Contracting Unit** of the Ministry of Finance together with the **Ministry of Economy**.

### *(3)(b) Short description of the tasks entrusted to the entity:*

The entrusted entities shall be responsible for carrying out all the tasks relating to the implementation of the Action. In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

At the operational level, the Ministry of Economy will have the overall coordination and reporting role over the implementation of the Action, while other relevant bodies and departments will be responsible to participate in the project activities for which they are responsible/collaborators.

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), acting as the Implementing Agency under IPA, bears the sole responsibility for the exact and proper

implementation of all contracts in question and in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. Support will be provided by the Project Implementation Unit (PIU) of the Ministry of Economy and will serve in ensuring the proper technical implementation of the contractual activities. In this regard, the CFCU and the PIU will closely cooperate throughout the entire implementation process of contracts.

<b>SECTOR</b>	<i>Education, employment and social policies sector</i>		<i>EUR 5 334 025</i>
<b>Action 3</b>	Support to COVID-19 crisis response in Montenegro	<i>Direct management</i>	<i>EUR 5 334 025</i>

**(1) Description of the Action, objectives, expected results and key performance indicators**

The Action consists of a new budget support contract (Resilience Contract).<sup>2</sup>

The *objective* of the action is to mitigate the impact of the COVID-19 crisis in Montenegro

The *specific objectives* are three-folds: to reduce the negative effects of the crisis on the economy; to preserve vulnerable social groups from the disruptive effects of the crisis and guarantee their continued access to basic social services; to increase access of vulnerable business to economic relief.

**Expected results and key performance indicators**

The *expected results* of this action are:

- R1: *The negative effects of the crisis on the economy are reduced*
- R2: *Vulnerable social groups are preserved from the disruptive effects of the crisis*
- R3: *Access of vulnerable business to economic relief is increased*

The achievement of the results envisaged by the action will be measured by the following *indicators*:

For R1:

- Number of subsidised wages
- Number of beneficiaries of the Government response measures

For R2:

- Number of Social Card beneficiaries \*
- Number of cases entered in the Case Management System
- Amount of social allowances as % of the state budget

<sup>2</sup> NB: This action concerns, in addition to the AAP 2016, also AAPs 2019 and 2020. Funds are drawn from three different decisions: AAP 2016 (Decision C/2016/8226): EUR 5 334 025; AAP 2019 (Decision C/2019/8343): EUR 28 300 000; AAP 2020 (Decision C/2020/447): EUR 6 865 975. Total amount for the action is EUR 40 500 000(EU contribution).

111



- Number of unemployed people\*

For R3:

- Number of beneficiaries of grant schemes\*

- Number of enterprises who can accede to credit instruments\*

- Number of enterprises who can accede to non-financial services\*

(\* Indicator will be disaggregated by gender and ethnicity, whenever possible)

## **(2) Assumptions and conditions**

Assumptions for this action are:

- The country remains politically stable
- The promised IMF and World Bank interventions and the EU Macro-financial support will materialise before the end of 2020.
- The national authorities have the capacities to conceive and quickly implement a grant scheme in favour of micro and small enterprises.
- Notwithstanding possible situations of *force majeure*, the circumstances should allow technical assistance to continue and help finalise the actions launched in 2019.
- Montenegrin authorities will use the funds provided through this budget support programme to increase the country resilience to external shocks and to preserve the access of population to basic services

**Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.**

## **(3) Implementation modalities:**

### ***(3)(a) Direct management through Budget Support***

#### **a) Eligibility for budget support**

- Satisfactory progress in the implementation of the government response measures to COVID-19 and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards reducing imbalances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

Summary of the eligibility criteria:

- Public policy

Following the outbreak of COVID-19 pandemic, the Government reacted to the health emergency with a "Country Preparedness and Response plan", which was presented on 27 March, with an overall cost of EUR 59 million for the first three months of implementation. The plan, prepared in collaboration with the World Health Organisation, covered immediate health priorities, with some focus on the social implications of the crisis. The plan outlined the

necessary sanitary and health measures, including actions to enhance the core capacities under International Health Regulations and to reinforce the early detection and monitoring capacities of the public health services and of other partners.

The national authorities adopted two fiscal stimulus packages, with the aim to mitigate the crisis' substantial disruptive effects on growth and employment. On 19 March, the government adopted a first package of measures with an estimated cost of ca. 2.1% of GDP. The measures mainly focused on improving supplies and health sector capacity by cutting daily budget spending, the deferral of tax and social security payment obligations for 90 days. It included delayed payments for the lease of state-owned property, a moratorium on loan repayments of up to 90 days and giving companies access to subsidised credit through the Investment Development Fund to improve their liquidity.

A second package of measures was adopted on 24 April and its estimated budget cost is around EUR 75 million (or ca. 1.5% of GDP). It provided for two-months wage subsidies of up to 100 % of the minimum wage for companies in lockdown sectors, 70% of wage subsidies for employees on paid leave, quarantine or isolation, 50% of the minimum wage for companies in the affected (vulnerable) sectors, six-month wage subsidies of 70% of the minimum wage for newly reported employment, and proportional exemption of taxes and contributions to those wage subsidies. It also included support to agriculture and fisheries sector, and one-off assistance for pensioners, registered unemployed and vulnerable groups. Along with the second package of measures, the government cut wages of the highest public officials for two months with the aim to free resources for crisis response measures.

A third complementary package of measures has been announced for mid-June 2020, following adoption of 2020 budget rebalance. The new package of measures is planned to focus on investments and financial support for the real economy, in particular the tourism sector. Given informal economy's large scale, estimated between 25% and 30% of GDP, new support measures should include employees and companies from this segment of the economy in order to ensure their formalization and social inclusiveness.

- Macroeconomic policy

Already before the COVID-19 crisis outbreak, economic activity has started to slow as investment growth declined markedly. After strong real GDP growth in 2017 and 2018, the rate of economic expansion decelerated to 3.6% y-o-y in 2019. The deceleration reflects a slowdown in investment as large infrastructure projects were completed. Meanwhile, private consumption has become the main driver of growth, boosted by a strong tourism performance, growing employment and increasing household loans. Strong domestic demand and a high import-dependence continued to fuel a very large current account deficit. In 2019, the current account deficit totalled 15.2% of GDP, a substantial increase compared to a 10.1% of GDP gap recorded in 2015. Despite the faster increase of merchandise exports, the trade deficit expanded by 2 percentage points over the last five years, to 42.1% of GDP, reflecting a highly import-dependent economy and the impact of the investment cycle. Inflation decelerated in 2019 and early 2020. Economic growth, reform of social benefit schemes for mothers and support for young unemployed helped improve labour market conditions. However, the halt of economic activity introduced in March to contain the COVID-19 had a negative impact on the labour market. The unemployment rate rose to 17.4% in April, up from 15.3% in March and 16.4% a year earlier.

Significant underspending in public investment and recovery of tax arrears reduced the budget deficit. The budget balance improved considerably in the last two years owing to fiscal measures introduced since 2017. The budget deficit narrowed to 2% of GDP in 2019, down from 3.9% a year earlier owing to improved tax revenue collection. The 2020 budget, adopted on 27 December 2019, introduced a series of ad-hoc expenditure increases totalling 2% of



GDP, including a 9% increase in public health and education salaries, extra funds for the purchase of medicines, writing-off debts owed by the national air carrier and the carryover of underspent funds for the highway construction. Overall, the 2020 budget targeted a deficit of 1% of GDP, well below the fiscal rule ceiling of 3%, but a noticeable deviation from the 0.2% surplus planned in the 2019 Economic Reform Programme (ERP). However, the COVID-19 derailed budget plans, confronting public finances with a triple shock: the collapse of tax revenue due to the interruption of economic activity, a sudden surge of healthcare expenditure, and the need to finance support measures to preserve the economy. The public debt ratio continued to increase from an already high level, partly due to liability management operations, which reduced refinancing risks. Following the adoption of the new medium-term debt management strategy in April 2018, the government has more actively managed its public debt portfolio.

Overall, the COVID-19 pandemic is expected to push Montenegro into a deeper recession than the global financial crisis in 2009. Travel and tourism, as critical driver of country's growth accounting for some 25% of Montenegro's GDP in total, will be particularly affected. Public debt growth would be partially limited in 2020 owing to the use of government reserves that were built-up to pay maturing debt in 2020 and 2021. According to 2020 budget rebalance, the estimated shortfall in the government coffers will amount to EUR 877.5 million, including funds needed for the repayment of maturing obligations in 2021. Out of that amount, around EUR 500 million will be provided through arrangements with financial institutions, and EUR 250 million World Bank-guaranteed syndicated loan has been already secured.

The planned EU support in the amount of EUR 100 million (EUR 40 million budget support and EUR 60 million Macro-Financial Assistance) will be therefore crucial to support the balance of payments and further close the financing gap.

The response to the crisis is assessed as relevant and credible to restore key macroeconomic balances. Close monitoring of the situation will be performed in coordination with the IMF and other partners like the World Bank and UNDP.

- Public financial management

Montenegro adopted a multiannual Public Finance Management Reform Programme (2016-2020) in December 2015 which addresses several key weaknesses of the budget system. The objectives of the strategy are twofold: a) strengthen the capacities to identify, prevent and manage fiscal risks, excessive fiscal deficits and harmful macroeconomic imbalances b) Ensure that public spending is structured in a way that maximises the development impact on the national economy and ensures better quality of life for the citizens.

Montenegro underwent a new PEFA assessment in 2019, covering the PFM system performance in fiscal years 2016, 2017 and 2018, conducted by the World Bank, using the most recent PEFA methodology. Compared to PEFA 2009 and 2013, PEFA 2019 results show an overall tendency of improvement. Main performance progress is observed in (i) budget reliability (ii) extent of unreported government operations (iii) taxpayer registration and tax assessment (iv) procedures for contracting and reporting debt and issuing guarantees (v) improved procurement management (vi) effective internal controls (vii) strengthened internal audit, external audit and parliamentary scrutiny. Monitoring of fiscal risks arising from local governments by the central government has deteriorated.

Main weaknesses are related with medium-term budgetary planning, poor link with strategic planning and lack of monitoring and reporting of potential fiscal risks. Budget execution suffers from weak commitment and cash management, limited management of public assets and capital investments. The PFM Reform Programme 2016-2020 has shown a moderate rate of

implementation during the first years, however it continues to address some of the key weaknesses of the PFM system and remains therefore relevant, as confirmed by the results of the ongoing PEFA exercise. Main achievements since 2019 are reported in the following areas: increased capacity for public internal financial control, external audit and debt management; the macroeconomic model was improved; tax administration and revenue collection operations became more efficient. Montenegrin authorities continue working on some crucial reform activities, strongly supported by existing external assistance, and there is reasonable evidence that this budget support and the parallel macro-financial support operation may further encourage them to continue on the reform path.

- Budget transparency and oversight of the budget

The entry point for Budget Transparency continues to be met, as the Government of Montenegro published 5 basic budgetary documents available to the public in due time:

1. The annual budget proposal for 2020 was submitted by the Government to the Parliament on 15.11.2019 and complete documentation was published on the website of the Parliament on that day.
2. The Budget Law for 2020 was adopted on 27.12.2019 and published on 30.12.2019 in the Official Gazette of Montenegro no 7/4/2019.
3. In-year budget execution reports are made available to the public with nearly two months delay (last one published in late April 2020)
4. The annual budget execution report for 2019 was published on the Ministry of Finance website in March 2020.
5. The audit report for the final accounts for the 2018 budget was published on State Audit Institution website on 14.10.2019.

In addition to the above, Government of Montenegro also issues other relevant documents, such as: pre-budget statements, other external audit reports (SAI reports) and summary of budget proposals.

Overall, PEFA 2019 assessed that fundamentals of the PFM system are in place with main functions performance measured with high-ranking scores. This refers to the budget preparation and reliability, transparency of budget and fiscal information, revenue mobilization and budget execution, internal control and internal audit, external audit and parliamentary scrutiny. Nevertheless, more advanced components of PFM demonstrate needs for further improvement and constant reinforcement.

Montenegro scored 44.43 out of possible 100 in the Open Budget Index being classified as a country with limited budget openness and overall belonging to the group of countries with insufficient budget transparency. Yet, the scores are over the average recorded in the region. In November 2018 Montenegro regained its active status in the Open Government Partnership (OGP) Initiative.

The COVID-19 crisis and the upcoming election in September 2020 may cause delays in the budget approval process. Exceptional procedures or derogations used by the authorities during the COVID-19 crisis should be closely monitored and the necessary safeguards/oversight measures applied in accordance with the regulatory framework. Expenditures have to be properly recorded, as they will most likely lead to payment arrears. The same applies to revenue, as a result of tax relief granted to businesses. Transparency on exceptional measures



should be ensured and oversight/anticorruption/fraud bodies should be involved in monitoring and reporting on their implementation.

b) Objectives

The *overall objective* of the action is to mitigate the impact of the COVID-19 crisis in Montenegro.

The *specific objectives* are three-folds:

- To mitigate the negative effects of the crises on the economy;
- To preserve vulnerable social groups from the disruptive effects of the crises and guarantee their continued access to basic social services;
- To support the recovery and development of SMEs of vulnerable business, in particular owned by women.

c) Expected results

The *expected results* of this action are:

- R1: *The negative effects of the crisis on the economy are reduced*
- R2: *Vulnerable social groups are preserved from the disruptive effects of the crisis*
- R3: *Access of vulnerable business to economic relief is increased*

d) Main budget support activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

Engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

e) Complementary actions

Under the total amount of mobilised funds for this budget support action, a total of EUR 500 000 are foreseen for complementary actions as well as for horizontal activities, e.g. communication/visibility action and evaluations.

The total amount allocated for the budget support, including complementary actions, is EUR 40.5 million. Within **this Country Action Programme**, a total of **EUR 5 334 025** is foreseen for covering parts of the variable tranche of the budget support action.

**(4) Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

- a) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

**BUDGET**

**INDICATIVE BUDGET TABLE - COUNTRY ACTION PROGRAMME FOR MONTENEGRO FOR THE YEAR 2016**

	2016 Indirect management with the IPA II beneficiary			Direct Management by the European Commission		Allocation of contingency reserve	Financing Decision	
	EU Contribution (EUR)	IPA II beneficiary (EUR)	Total indirect management (EUR)	EU Contribution (EUR)	Third party contribution (EUR)		TOTAL programme (EUR)	TOTAL EU Contribution (EUR)
<b>3 - Environment and Climate Action</b>	<b>11 385 975</b>	<b>2 009 290</b>	<b>13 395 265</b>	n/a	n/a	<b>8 155 178.43</b>	<b>6 145 888.43</b>	
Action 1 - Capacity Building and Acquis related Activities for Sector Environment & Climate Action	11 385 975	2 009 290	13 395 265	n/a	n/a	8 155 178.43	6 145 888.43	
<b>6 -Competitiveness and Innovation</b>	<b>6 228 900</b>	<b>692 100</b>	<b>6 921 000</b>	n/a	n/a	<b>5 280 248.00</b>	<b>4 588 148.00</b>	
Action 2 - Strengthening the Competitiveness and Innovation sector of Montenegro	6 228 900	692 100	6 921 000	n/a	n/a	5 280 248.00	4 588 148.00	
<b>7 Education, employment and social policies sector</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5 334 025</b>	<b>0</b>	<b>5 334 025.00</b>	<b>5 334 025.00</b>	
Action 3 - Support to COVID-19 crisis response in Montenegro	0	0	0	5 334 025	0	5 334 025.00	5 334 025.00	
<b>CONTINGENCY RESERVE</b>						2 294 890.00	2 294 890.00	
<b>TOTAL</b>	<b>17 614 875</b>	<b>2 701 390</b>	<b>20 316 265</b>	<b>5 334 025</b>	<b>0</b>	<b>21 064 341.43</b>	<b>18 362 951.43</b>	



#### **4 IMPLEMENTATION MODALITIES AND GENERAL RULES FOR PROCUREMENT AND GRANT AWARD PROCEDURES**

##### **INDIRECT MANAGEMENT WITH BENEFICIARY COUNTRY:**

This programme shall partly be implemented by indirect management by Montenegro in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

The general rules for procurement and grant award procedures shall be defined in the Financing Agreement and the relevant delegation agreements between the Commission and the entrusted entity implementing such action.

#### **5 PERFORMANCE MONITORING ARRANGEMENTS**

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, the National IPA Co-ordinator (NIPAC) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegation; d) joint monitoring by DG NEAR and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.